

Doing Business in Iraq

U.S. Commercial Service
2004

www.iraqibusinesscenter.org

WWW.IBCGUIDE.ORG

WWW.EXPORT.GOV/IRAQ

www.cpa-iraq.org

WWW.REBUILDING-IRAQ.NET

WWW.BUSINESSINQUIRIES@BAGHDADFORUM.COM

OVERVIEW

- Business Opportunities in Iraq
 - Overview by Sector
 - PMO
- Update on Obstacles to Doing Business in Iraq
 - Security Update
 - Legal Update
 - Infrastructure (financial, communications, electrical)
- Business Resources

IRAQ OVERVIEW

Half Empty or Half Full?

- Potential bread basket for the entire region.
- 2nd Largest Oil & 10th largest Gas reserves
- External debt being negotiated
- Priority for infrastructure repair
- Population (26 million)
- Political commitment of US unquestioned
- U.S. Commitment in 2004 around \$20 billion
- \$13Billion Pledged from others

Reality versus Perception

Watching some media reports would make you believe that Iraq is a no-man's land.

The situation in Baghdad is not what it appears in some media coverage

Business Opportunities Overview

4 Main investment segments to consider

US Government Contracts

- USAID Reconstruction Contracts
- US Military/OCPA Contracts
- Go “on-line” and get “in-line”
- US\$ 18.6 billion for 2004
- Include Iraqi content whenever possible

Private Investment

- Greenfield or equity based investment with private business
- Due diligence of partners and properties is critical
- Currently limited legal recourse, although courts are functional
- Currency and other risks are manageable- get creative!

Privatized Public Entities

- Ministry of Industry and Minerals is tracking 30 factories for long term leasing. Initial bids have been received and should be complete by March 15
- Privatization on hold
- Get Iraqi partners & prepare to commit long-term

Regulated Industries

- Telecom, Utilities, Media, Transportation, etc..
- No rules established yet, therefore risk is high
- Limited legal recourse for investors
- Iraqi partnership critical

Project Management Office Contracts

www.rebuilding-iraq.net

- \$18.6 billion contracts to be awarded

Timeline

1. January - February 2004: Bidding on prime contracts.
2. February – March 2004: Bid deadlines for primes
3. March – April 2004: Winners Announced
4. April onward: Sub-Contracting follows

Spending for Six Sectors

- Waste Water Resources and Potable Water - \$4 B
- Oil - \$800 M
- Electricity - \$5 B
- Security and Justice - \$1.6 B
- Transportation and Communications - \$550 M
- Health Facilities and Public Schools - \$650 M

www.fedbizopps.gov and www.rebuilding-iraq.net

Prime and Sub-Contracts

- 2,300 estimated projects across the six sectors
- Prime contracts open to coalition partners
- Sub-contracts open to all countries
- Preference given to Iraqi Companies or companies with Iraqi partners
- PMO to provide special incentives for companies helping develop skills and transfer knowledge/value-added to Iraqi firms.

Iraqi Partners are Essential to Compete

Tendering Process

- 30-day Request for Proposal (RFP)
- Transparent
- USG Contracting Rules & Regulations
(www.arinet.gov/far/loadmainre.html)
- www.ccr.gov - Register online

Tips to Competing for Government Contracts

1. **Timing is crucial**
2. **Contracts are awarded on best value**
3. **Be realistic**
4. **Contracts must be fulfilled accurately & completely:**
5. **Past performance matters!**
6. **If you have specific questions about specific contracts please contact the person listed as point of contact.**

Sources of Revenue for the Development Fund for Iraq (DFI)

- Current Oil Production:
 - 2.4 – 2.6 million Barrel Per Day
 - 1.6 million bpd being used to finance Iraqi procurements
- Trade Bank of Iraq backed by the DFI and \$2.7 billion in guarantees; U.S. EXIM Bank for \$ 500 million
- Customs Revenues
- Seized funds

Private Sector Opportunities Overview

- Infrastructure Related to USG/Public Spending
 - Engineering & Construction
 - Basic Materials
 - Transportation/ logistics
 - Catering
 - Financial Services
- Direct private investment to capture wealth effect
 - Food and drug processing & distribution
 - Tourism and travel
 - Broadcasting
 - Private healthcare & insurance
 - Consumer goods and basic manufacturing

Risks Associated With Variable Costs Due to
Inflationary Impact of International Involvement

Security Update

- Theft and Violent Crimes are declining
- Be Mindful of Security. Plan Exit Strategy
- Private Security Firms:
 - Provide bodyguards, hardened cars and security for buildings
 - List available at http://travel.state.gov/iraq_securitycompanies.html
 - Blend into the populace
- Where to find more information on security:
www.centcom.mil, www.hiciraq.org, www.travel.state.gov/iraq

Security is a Manageable Risk

Traveling to Iraq

By Air

- Royal Jordanian Flights from Amman to Baghdad – four times a week;
- Check Basrah & Erbil

By Road

- Northern Region: Ibrahim al-Khalil/Habur Gate (Turkey)
- Central Region: Ar-Ar (Saudi Arabia)
- Trebil/Al Karemah (Jordan)
- Southern Region: Safwan (Kuwait)

Travel by Vehicle from Jordan

- Visa at border for JD 14; Iraq passport stamped on entry
- Any valid national passport
- Taxi Services- through hotels. Costs vary
- US Forces control Iraqi border point
- Highway 1 is a high-quality 4 to 6 lane road (Amman to Baghdad about 10 hours)
- Border crossing MAY involve delays
- Gas, Diesel and convenience stores at rest stops are generally functioning along Hwy 1
 - Gas prices vary
 - Plan to carry extra water, food, and fuel (don't get stuck)

Hotels in Iraq

- Mostly cash-only basis (US\$ or Iraqi Dinars)
- Hotel district in Baghdad is well patrolled, surrounded by hardened barriers, and many hotels provide their own security services
- Local Taxi Drivers know hotel locations
- Most do not take reservations
 - Listing available with phone numbers at www.export.gov/iraq/commercialenv/faq.html

Shipping Goods to Iraq

- **Iraqi Ports:**
 - Major Upgrades Completed at Umm Qasr and Az Zubayar.
 - Can accommodate bulk grain-bearing ships.
 - Restoration of all grain facilities are completed.
- **Other Ports:**
 - Aqaba, Latakia, Tartous, Tripoli and Beirut, Iskandra are all actively competing for shipments destined for Iraq
- **Rail: Rehabilitation underway from Umm Qasr**
- **Shipping: Regional freight forwarders and trucking companies are actively competing for shipments to Iraq**
 - Rates are dependent upon cargo, timing, destination, etc..
- **FedEx and DHL also servicing Baghdad area**

Update on FDI

Decree 39: FDI Law

- “Foreign Entities” have same standing as Iraqi investors with a few exceptions (land ownership, natural resource processing)
- Right to own and repatriate 100% of shares and profits
- Real Property exclusion- free hold lease up to 40 years
- \$100K bond requirement for retail sales activity
- All laws subject to review with accession of new government
- Implementation in progress

Extremely Favorable Investment Law by any Standard

Taxes and Tariffs

- Reconstruction levy of 5% implemented on March 1, 2004
 - Major freight-forwarders and shipping companies are pre-registered for customs levy (75% of goods)
 - Other goods assessed and paid at border for customs duty
 - Exceptions: Food, Medicine, Clothing, Books, Reconstruction materials
 - Please see CPA Orders # 12, 16, 38, and 47 on www.cpa-iraq.org).
- No sales tax or VAT
- 15% Maximum on individual and corporate taxes

Establishing a Local Company

Company registration

- Registration at the Ministry of Foreign Trade – new regulations under development.
- Company Commercial Law 21 is being revised by CPA to simplify incorporation of companies.
- New Foreign Investment Law allows 100% foreign ownership.
- Interim Solution: Foreign companies allowed to establish “business presence” in Iraq.

Commercial Transactions

- CPA supports Iraqi Nationals to establish direct trading agencies with international trading companies
- Iraqi Currency is fully convertible inside Iraq
- Daily auction
 - Establishes \$US/ID rate
 - Rates currently are in the 1,500ID/\$ range

Financial Infrastructure Update

Structuring the banking system

State owned Banks

- 2 Major plus 4 small special banks

Private sector banks

- 17 private sector banks exist
- New private sector bank charters planned
- ID 10 billion minimum capital
- Possible 49% foreign ownership, without license

Foreign Bank Licenses

- Four new foreign bank licenses announced
- ID 50 billion Capital requirement for foreign owned banks
- Potential unlimited availability for 100% foreign ownership

Trade Bank of Iraq – Operational in December 2003

Order # 40 and Annex – Iraq Bank Law

www.cpa-iraq.org

Private Sector Banks

The following banks provide international payments, remittances and letters of credit:

Iraqi Middle East Investment
Bank

Investment Bank of Iraq

Bank of Baghdad

Credit Bank of Iraq

Babylon Bank

Dar Es Salaam Investment Bank

Bank of Iraq

Commercial Bank of Iraq

Al-Warka Investment Bank

National Bank of Iraq

Finding an Iraqi Partner or Distributor

- Due diligence is critical
 - Political connections cut both ways.
 - Demand transparency and references
- Networking is King: www.iraqibusinesscenter.org
- Foreigners investors can invest in Iraqi companies
 - restrictions on land ownership require the Iraqi entity to sell its land and lease it back
- Cannot do business without actually being there
 - Nice to do in the west... a requirement in the Middle East

Legal Protection

Legal System is a mix of Iraqi Civil Law, CPA legislation, and Islamic Law

- Civil Courts can ensure limited liability
- Iraqi Civil Law has provisions for Company Law
- Labor Laws
- Banking Laws
- Tax Laws
- Patent Law
- Trademark law

Legal System is a “Works in Progress”

Communications in Iraq

- Mobile Phone Service
 - January 15, 2004 – Iraqna Cell Phones available in Baghdad
 - For Businesses: Go to Babylon Hotel.
 - \$500 deposit. \$150 for international service. \$69 for a SIM card.
 - For Private Use:
 - \$100 if own a phone. \$69 for a SIM card. \$16 monthly fee.
 - Time cards for \$10 to \$30; cards expire in one week.
 - Similar services will be available in North in the future
- Local & Long Distance Service in Baghdad
 - Most land lines in Baghdad are functioning
 - Iraq code +964
- Internet is available:
 - VSAT Capability is an interim solution
 - Internet Café's opening
- Postal Services
 - DHL & FedEx operating in Baghdad
 - Iraqi Postal Service is operational

Electricity in Iraq

Pre-Conflict Sustained Generation:	4000 MW (2003)
February 2004	4100 Sustained
Summer 2004	6000/7000 MW Sustained

- USACE investing approx \$1 B between Sept 03-June 04
- USAID has lead for significant improvements in generation and transmission by summer of 2004, cost \$300 M
- Charging industry and residential customers for electricity began in 2004
- Importing power from Syria and Turkey. Pending deal with Kuwait. Planning new generation especially around Baghdad
- Re-establishing Power Police forces to protect Ministry of Electricity facilities from looting and sabotage
- Large tenders for Rebuilding Iraqi Electricity forthcoming through PMO
- MOE now pursuing IPP contracts to increase power
- Future plans to switch from steam plants to natural gas fueled turbines, include combined cycle plants and development of natural gas fields, transmission and distribution system

Water and Fuels in Iraq

- Unleaded gasoline generally available in Iraq
- Diesel is currently in scarce supply
- Bottled water is available
- Water purification systems in major cities are currently under repair

Business Resources

Iraqi Business Center

- Source for information on new regulations, business opportunities and networking
- Building links to business associations
- Registering companies to assist International firms with finding partners
- Providing a resource for international delegations
- www.iraqibusinesscenter.org
- Iraqi Business Guide “yellow-pages” (www.ibcguide.org)
- http://iraqcoalition.org/business_center.html
- E-mail: BUSINESSINQUIRIES@BAGHDADFORUM.COM

Sources of Finance

- EX-IM Bank of the United States www.exim.gov
 - Working Capital Guarantee Program
 - Third Country Suppliers
 - Bank Letter of Credit
 - Financial Institution Buyer Credit Insurance policies
- OPIC Risk Insurance Program – www.opic.gov

US Commercial Service

- Commercial Officer, Baghdad
 - Ltabash@baghdadforum.com
 - Located at Baghdad Convention Center